

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

RECEIVED
SEP 4 5 06 PM '97

POSTAL RATE AND FEE CHANGES, 1997

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MOELLER TO INTERROGATORIES OF
VAL-PAK DIRECT MARKETING SYSTEMS, INC., VAL-PAK DEALERS'
ASSOCIATION, INC., AND CAROL WRIGHT PROMOTIONS, INC.
(VP-CW/USPS-T36-15-19)

The United States Postal Service hereby provides responses of witness Moeller to the following interrogatories of Val-Pak Direct Marketing Systems, Inc., Val-Pak Dealers' Association, Inc., and Carol Wright Promotions, Inc.: VP-CW/USPS-T36-15-19, filed on August 21, 1997. Interrogatories VP-CW/USPS-T36-11-14 were redirected to the Postal Service.

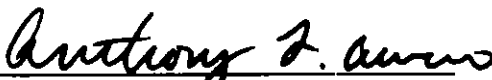
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


Anthony F. Alvares

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2997; Fax -5402
September 4, 1997

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/USPS-T36-11. The following table compares test year transportation costs for Standard A mail as found in LR-H-111 and USPS-15J. Please reconcile the different figures shown on row 2 and labeled here as "Other (purchased) transportation cost."

| | (1) | (2) |
|--|------------------------------|--------------------|
| | LR-H-111 App B Table 8 | USPS-15J Page 4 |
| 1. Postal-Owned Vehicle Cost | 128,899 | n.a. |
| 2. Other (purchased) transportation cost | <u>429,422</u> | <u>468,693</u> * |
| 3. Total-all modes | 558,321 | 468,693 |

* Excludes Single Piece Standard A

RESPONSE:

Redirected to the Postal Service for response.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/USPS-T36-12. According to LR-H-145, G-2, pp.1-2, the total pounds of bulk Standard A Regular Mail was:

| | <u>Pounds</u> |
|-----------------------------|----------------------|
| Total Regular (Basic + 3/5) | 4,048,844,175 |
| Total Carrier Route | <u>4,111,416,346</u> |
| | 8,160,260,521 |

Total pounds entered at DDUs were as follows:
(see USPS-29D, p.3)

| <u>Letters</u> | <u>Pounds</u> |
|----------------|---------------|
| Non-saturation | 8,436,165 |
| Saturation | 22,714,978 |

| <u>Nonletters</u> | <u>Pounds</u> |
|-------------------|---------------|
| Non-saturation | 43,016,825 |
| Saturation | 980,008,342 |

In other words, the billing determinants indicate that 12.9 percent were dropshipped to DDUs. LR-H-111, Appendix A, Table 1 indicates that only 1.11 percent of Bulk Standard A Mail (in pounds) is entered at DDUs.

- a. Please reconcile the difference between billing determinant data and LR-H-111 with respect to DDU entry.
- b. Please explain why LR-H-111, App. A, Table 1 was based on LR-H-105 instead of billing determinants.

RESPONSE:

Redirected to the Postal Service for response.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/USPS-T36-13. Please refer to LR-H-111, pp. 5-6, and pp. 13-15, which gives the transportation costs avoided for Standard A Mail.

- a. Within the CRA, are these nontransportation costs recorded as direct or indirect costs? If they are indirect costs, are they included in the piggybacks for mail processing costs, delivery costs, or something else? Please explain.
- b. Please refer to USPS-29C, p. 3. For mail that is not dropshipped, are the nontransportation costs that could be avoided by dropshipment included under (i) Mail Processing Costs, (ii) Other Costs, or (iii) somewhere else?

RESPONSE:

Redirected to the Postal Service for response.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/USPS-T36-14. LR-H-111, Appendix B, Table 6 shows the transportation costs for Standard A Regular Mail as including some \$139 million for Postal-Owned Vehicle Costs.

- a. What cost segment(s) contain this \$139 million of Postal Owned Vehicle Costs?
- b. Are these Postal Owned Vehicle Costs direct costs, or are they included in the indirect costs, or piggybacks, or other direct costs?
- c. If they are included in the indirect costs or piggybacks or other direct costs, are they part of the piggybacks for (i) mail processing costs, (ii) delivery cost, or (iii) both?

RESPONSE:

Redirected to the Postal Service for response.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/USPS-T36-15. In your opinion, do the principles of Ramsey pricing have any relevance to rate design within the Standard A subclasses? Please explain your answer, regardless of whether it is affirmative or negative.

RESPONSE:

See my response to VP-CW/USPS-T36-1.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/USPS-T36-16.

- a. Please explain your familiarity with and understanding of the concept of efficient component pricing.
- b. In your opinion, is efficient component pricing an important principle for design of rates in the Standard A subclass?
- c. When determining the various passthroughs that you recommend within the Standard A subclass, what effort did you make, if any, to incorporate the principle of efficient component pricing?

RESPONSE:

See my response to VP-CW/USPS-T36-2.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/USPS-T36-17.

- a. For cost savings that arise from dropshipment of Standard A mail, you recommend an 80 percent passthrough in this case. Is 80 percent what you consider to be an "optimal" passthrough for Standard A mail, or is your recommendation for an 80 percent passthrough constrained in this case by other considerations? If the latter, please describe all other considerations that you consider significant.
- b. Under what conditions would you consider a 100 percent passthrough for dropship discounts to be appropriate?
- c. Under what conditions would you consider a passthrough of more than 100 percent (e.g., including a markup) for dropship discounts to be appropriate?

RESPONSE:

- a. See my response to VP-CW/USPS-T36-3.
- b. A 100 percent passthrough is appropriate if it does not conflict with other rate design goals.
- c. The proposed rate design includes several passthroughs of greater than 100 percent in order to avoid swings in the level of some discounts or to moderate the increase in some rate cells. I view these passthroughs as appropriate; however, they are *not* based on a markup of the avoided costs.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/USPS-T36-18. Transportation costs represent a significant portion of the costs avoided by dropshipment to destinating facilities. In your opinion, is it most desirable to reflect transportation cost differences in rate design at (i) less than 100 percent, (ii) 100 percent, or (iii) somewhat more than 100 percent, e.g., the full cost difference times the subclass coverage factor? Regardless of your answer, please explain all rate design principles upon which you rely to support your position.

RESPONSE:

See response to VP-CW/USPS-T36-4 and VP-CW/USPS-T36-17.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/USPS-T36-19. In your rate design for Standard A Mail, you have stated a desire to avoid large percentage increases for individual rate cells.

- a. At p. 10 of your testimony, you state that the Postal Service has a "desire to moderate rate increases for individual categories." Please explain (i) the basis or reason why individual categories should have their rate increases moderated, and (ii) whether such moderation is inconsistent with having rates that reflect costs.
- b. Assume that the Standard A Regular or ECR subclass as a whole has an average rate increase of X percent. What is the maximum increase in any given rate cell, stated as a multiple of X, that you consider desirable. Please explain the basis for your answer.

RESPONSE:

See response to VP-CW/USPS-T36-5.

DECLARATION

I, Joseph D. Moeller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


JOSEPH D. MOELLER

Dated: September 4, 1997

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.


Anthony F. Alverto

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
September 4, 1997